#8

OIPE JC42
JAN - 2 2001
PATENT & TRADEMARK OFFICE

SYSTEM AND METHOD FOR ASSIGNING RATINGS TO MUTUAL FUNDS AND OTHER INVESTMENT FUNDS BASED ON THE VALUE OF VARIOUS FUTURE AND OPTION SECURITIES

FIELD OF THE INVENTION

The present invention relates to a computer-implemented system and method for assigning ratings ("Ratings") to various investment vehicles (the "Funds") using information from public and privately traded financial futures (the collectively the "Futures").

BACKGROUND OF THE INVENTION

Futures provide information on expected future returns in various investment areas or asset classes. For example, a financial future on the S&P 500 for the period ending June 2000 is a representation of what the financial markets expect the value of the S&P 500 will be in June 2000. Financial futures are now available for a number of segments of the market, such as US value stocks, US growth stocks, small capitalization stocks, large capitalization stocks, US Treasury Bonds, high yields bonds, etc.

SUMMARY OF THE INVENTION.

By combining information on the Funds with the expected range of future returns, as implied by the pricing of the Futures, one can derive a range of expected future returns, the volatility of future returns, and a rating, which reflects the expected return and the risk of the Fund.

Ins A1

DETAILED DESCRIPTION OF THE INVENTION.

Expanding on the example of the S&P 500 future and a large capitalization mutual fund, if the future indicated that the expected return was an annualized 7%. Using a modification of the Black –Scholes (a widely used option pricing equation developed in 1973 by Fisher Black and Myron Scholes used to price OTC options), one could determine that there was a 66% chance that the return would be within 5 and 9% and a 95% chance that the return would be within 4 and 10% for the period ending June 2000. If the Fund had a historic return that was on average 1% less than the S&P 500, but with the same level of volatility, then the mean expected return would be 6%, and the range of expected returns at the 66% level of confidence would be 4 to 8% (i.e., 1% less than the example with the S&P 500). In the same way, the range of returns at the 95% confidence level would be 3 to 9% (i.e., 1% less than the example with the S&P 500).

In assigning ratings, the expected future return and volatility of future return is compared to that of other investment classes. For example, if large capitalization funds were expected to return 7% with a 4% range at the 66% confidence level, compared to a South American equity fund with an expected return of 5% and a range of 4% at the 66% probability level, the South American sector would be less appealing and therefore have a weaker rating. Note, the relative returns of the Fund are incorporated into the expected future return for the sector in deriving ratings. The Rating represents the expected risk and reward.

Note, the Black-Scholes model is useful for pricing options, whereas we are using futures pricing to determine the expected future returns for various investment areas, and combining that information with the relative performance of a fund and other information such as our assessment of the capability of the investment managers, support staff and characteristics of portfolio securities to derive a rating. Firms that rate Funds use mainly historical returns in assigning ratings.

DIAGRAM

Attached is an illustration of the major steps for assigning Ratings.